

VZCZCXRO8981
PP RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKSO RUEHNAG RUEHNH RUEHPB
DE RUEHHI #1298/01 3301035
ZNR UUUUU ZZH
P 251035Z NOV 08
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC PRIORITY 8774
INFO RUEHHM/AMCONSUL HO CHI MINH 5323
RUEHGP/AMEMBASSY SINGAPORE 2696
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 03 HANOI 001298

SENSITIVE
SIPDIS

STATE FOR EAP/MLS MBROWN
USTR FOR DBISBEE

E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EFIN](#) [EINV](#) [KCOR](#) [KPRV](#) [PGOV](#) [VM](#)

SUBJECT: NATIONAL ASSEMBLY GRILLS GVN ON SOES, SETS BUDGET AND VOWS
TO CONTINUE SLASHING POVERTY

REF: A) Hanoi 1108 (Highlights: Plug Pulled On Power Plants);
B) Hanoi 1108 (Highlights: MOIT Challenges Luxury Tax Proposal);
C) Hanoi 1260 ("Sowing the Seeds of a Biotech Discussion");
D) Hanoi 1072 ("Pharma, IPR and Market Access")

HANOI 00001298 001.2 OF 003

¶1. (U) Summary: The National Assembly (NA), in its October 15 to November 15 session, came down hard on mismanagement in Vietnam's state-owned sector, approved a 2009 budget deficit of \$5.1 billion, and reformed Vietnam's luxury tax regime, which will affect U.S. automakers adversely but create opportunities for the U.S. liquor industry. Reflecting the realities of the global economic climate, the NA also set revised economic targets for 2009, such as reduced GDP growth (6.5%). It also aimed to shore up Vietnam's social agenda on poverty reduction and sanitation. NA deputies asked pointed questions in the Q&A session, and voiced public and widely-reported criticism of government policy. End summary.

THE STATE-OWNED SECTOR COMES UNDER FIRE

¶2. (U) Legislators came down hard on the state-owned sector, many threatening to starve it of public funds or even have the NA take over management of the sector if the Government of Vietnam (GVN) does not improve its fiscal supervision. Deputies said that state-owned enterprises (SOEs) have enjoyed too many sweet deals from the GVN, were contributing little to the nation's economy, and contributing to inflation. Many members called for an end to government funding of SOEs, and one of them was quoted as saying that from now on, "the companies will have to find the money by themselves."

¶3. (U) NA members reserved their harshest judgment for power monopoly Electricity of Vietnam (EVN), which announced in July that it would award its employees bonuses totaling nearly \$60 million (at an average rate of \$715 per employee), despite claiming to be so cash-strapped that it has had to abandon much-needed power generation projects (REF A). "We're moving from a state-run monopoly to an enterprise-run monopoly," one deputy from the northern province of Lang Son stated on the floor, according to newspaper reports.

2009 STATE BUDGET

¶4. The 2009 State Budget approved by the NA projected revenues of \$23.6 billion, and limited on-budget spending to \$28.9 billion, resulting in a deficit of \$5.3 billion, or 4.82% of GDP. The Minister of Finance, in his budget discussions with the NA,

recommended that the government increase import tariffs on gasoline and cut back on other planned spending, including delaying increases in minimum wages, to balance next year's budget. Many deputies complained that fraud and delays in state-funded projects and tax evasion -- concerns they said were also raised in previous sessions and remained unanswered-- continued to hurt the national budget.

ASSEMBLY LOWERS TARGETS FOR 2009

15. (U) The GVN fell short of many of the targets it had set for itself for 2008, including GDP growth (6.5% percent instead of 8.5-9%), and inflation (24% instead of 7%). Although many of the deputies blamed unforeseen events like the world economic situation and fluctuations in commodity prices, they also criticized the GVN's poor forecasting record. As it does every session, the NA passed resolutions setting targets on economic performance for 2009, including export growth (13%), consumer price index growth (below 15%), job creation (1.7 million jobs), poverty rate (12%), access to clean water (79% in rural areas) and environmental improvement (treatment of 65% of harmful waste ensuring that 65% percent of industrial and export processing zones meet environmental standards for water treatment).

LUXURY TAX: BAD FOR CAR MAKERS, GOOD FOR THE LIQUOR INDUSTRY

16. (U) A Special Consumption (luxury) Tax Law harmonized rates on foreign and domestic beer, wines and spirits, one of Vietnam's commitments under WTO. As a result, the luxury tax rate for foreign spirits will decrease from 65% to 45% in 2010, while Vietnamese spirit rates will go up from 30% to match the 45% that their foreign competitors will pay. Rates on beer and all alcohol under 20 grade proof will be raised uniformly to 45%, also in 2010. The foreign liquor industry, which had lobbied hard for a uniform system, is reportedly "very happy" with this outcome, according to an EU

HANOI 00001298 002.2 OF 003

diplomat in Hanoi.

17. (U) The automotive industry, however, fared less well. The NA approved a shift from a luxury tax system that rewarded larger seating capacity to one that favors small engines. Thus, the large 9-seaters that the previous luxury tax system encouraged will soon find themselves taxed at double the rate they are now (from 30% to 60%). Worse, unlike the luxury taxes on liquor, those on cars are effective April 1, 2009, rather than the 12 months the industry had asked for, and which the Ministry of Industry and Trade had supported (REF B).

18. (U) The discussions over the luxury tax were heated, as supporters of both the car industry (both foreign and domestic manufacturers lobbied jointly against the bill) and the domestic liquor market criticized the proposals. The discussions on what should be considered as luxury items also revealed Vietnam's changing perceptions about luxury, as legislators publicly ridiculed including air conditioners in a country where people suffer from temperature extremes (to no avail, a/c units remained subject to luxury taxes).

GVN GRILLING: RICE EXPORT POLICIES, CORRUPTION AND POLLUTION

19. (U) NA legislators sharply criticized the government for placing restrictions on rice exports when international prices were at an all-time-high, leading to lost earnings that the Assembly calculated at \$500 million. In the Q&A session, the Prime Minister and members of his cabinet defended the restrictions as "necessary" to ensure sufficient domestic supplies and hold prices steady. Deputies were not satisfied with their explanations, saying the government still owed farmers an apology. The Natural Resources and Environment minister was also grilled about lax enforcement of environmental regulations, particularly the long time it took for the authorities to act against MSG producers (including the infamous case of the Taiwanese Vedan factory) that were dumping noxious chemicals in Vietnam's waterways.

110. (U) One NA deputy asked the Prime Minister point blank how he

planned to address the still unfolding corruption scandal in which Japanese businessmen admitted in a Tokyo Court to bribing a Ho Chi Minh City Transport official in exchange for consulting contracts on a road-building project. The Prime Minister responded that he asked authorities to fully investigate and promised his government would punish anyone found to be involved (Note: the Transport official has since been suspended. End Note).

¶11. (U) During the Q&A sessions, NA members publicly criticized various ministers with comments like: "not satisfactory," "not to the point," "not brave enough to assume responsibilities." In the end, the deputies were frustrated enough over the GVN's non-responsive answers that they passed a resolution requiring all ministers to explicitly answer questions.

CALLS FOR MORE NOT LESS GLOBAL INTEGRATION

¶12. (SBU) Although the global financial crisis was on everybody's minds during the NA session, the deputies did not call for Vietnam to back off from greater global integration; in fact, Chairman Nguyen Phu Trong, who is not particularly known for his reformist leanings, did just the opposite. In his opening remarks, he called for more global economic integration as a way to steady the country's economy through the international financial turmoil. Specifically pointing to WTO accession, he said that WTO accession had helped Vietnam "gain more experience in managing its economy."

PROMOTING HI-TECH AND BIOTECH DEVELOPMENT

¶13. (U) Legislators passed a new High-Tech Law to promote investment in this sector. The law, which had been submitted by the Ministry of Science and Technology, seeks to promote investment in the information, biotechnology and automation sectors by creating tax and other incentives.

¶14. (U) Among the many issues included in the new Law on Biodiversity are conservation planning, sustainable development of biodiversity, management of conservation areas, and risk management

HANOI 00001298 003.2 OF 003

of genetically modified organisms. During the sessions, several deputies proposed amendments to the Biodiversity Law to allow wider use of genetically modified organisms (GMO) (REF), but were dissuaded from doing so with promises from Agriculture Minister Cao Duc Phat that the GVN would allow wide-scale use of GMOs after testing, currently underway, concludes in 2010.

OTHER LAWS: DUAL CITIZENSHIP, JUDGMENTS AND CIVIL SERVICE

¶15. (U) The NA recognized dual citizenship, a move that will help expatriate Vietnamese enjoy the same privileges as Vietnamese citizens, particularly important in the ability to conduct real estate transactions. The Assembly also removed tenure for all government officials, making it easier to fire them at the end of their limited labor contracts. The NA approved the Law on the Execution of Civil Rulings, which eases out-of-court transactions between litigants. Laws on insurance and transportation will introduce important reforms in these sectors as well.

FOR THE NEXT SESSION

¶16. (U) The legislature saved for its next session in May 2009, discussions for reforms to: the Criminal Code that would introduce IPR protections (REF D); the Labor Code, that would allow for greater labor freedoms; and Public Debt Management to centralize international loan agreements and promote effective debt management.

COMMENT: AN INCREASING APPETITE FOR FISCALIZATION

¶17. (SBU) Over its last half dozen sessions, the NA has grown increasingly feistier in its criticism of economic governance. In previous sessions, it has grumbled but eventually fallen into line with the GVN program. This year, however, it made significant

budget revisions (for instance, trimming \$1.7 billion from projected revenues), and disregarded Trade and Industry Ministry proposals on luxury taxes. More significant, its criticism of the SOEs, and in particular EVN's move to award itself bonuses when it is strapped for cash, gave a public and widely covered voice to what many reformers would shy away from saying in public.

118. (U) This cable was coordinated with ConGen HCMC.

MICHALAK